

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of

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| THE APPLICATION OF INTER-COUNTY RURAL) | |
| ELECTRIC COOPERATIVE CORPORATION) | |
| OF DANVILLE, KENTUCKY, FOR AN ORDER) | CASE NO. 7741 |
| AUTHORIZING AN INCREASE IN ITS RETAIL) | |
| RATES, APPLICABLE TO ALL CONSUMERS) | |

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| THE APPLICATION OF INTER-COUNTY RURAL) | |
| ELECTRIC COOPERATIVE CORPORATION FOR) | |
| AN ORDER AUTHORIZING A PASS-THROUGH) | CASE NO. 7720 |
| OF EAST KENTUCKY POWER COOPERATIVE,) | |
| INC'S WHOLESALE POWER RATE INCREASE) | |
| IN CASE NO. 7702) | |

O R D E R

On February 15, 1980, Inter-County Rural Electric Cooperative Corporation (Applicant) filed an Application with the Commission seeking to increase its annual revenues by \$665,000, an increase of approximately 10%. The Applicant indicated that the increase was necessary to continue to operate on a sound financial basis and to meet the mortgage requirements of its lending agents.

By Order dated February 19, 1980, the Commission set a public hearing on this matter for March 26, 1980, and directed the Applicant to publish its proposed rates and notice of such hearing as prescribed by Kentucky law and the rules and regulations of this Commission.

The hearing was held as scheduled in the Commission's offices with one intervenor, the Office of the Attorney General's Division of Consumer Intervention, being present. At the close of the hearing, the matter was submitted to the Commission for final determination. All information requested has been submitted and made a part of the record.

Inter-County provides electric service to approximately 14,090 consumers in fourteen counties in Central Kentucky.

TEST PERIOD

The Commission has accepted the Applicant's proposed test period, the twelve months ending October 31, 1979, for the purpose of determining the reasonableness of the proposed rates and charges.

VALUATION METHODS

Net Investment

The Applicant proposed a Net Investment rate base of \$12,746,605.¹ The Commission has accepted the Applicant's rate base with two exceptions made in conformity with past policy. Cash Working Capital, included in Net Investment, has been computed as one-eighth of adjusted operation and maintenance expenses less the cost of purchased power.² Moreover, the Commission has reduced the Applicant's investment in its operations by the balance in Customer Advances for Construction of \$13,427.³

Therefore, the Commission finds that Inter-County's Net Investment in its utility operations at the end of the test period is as follows:

| | |
|------------------------------------|----------------------|
| Utility Plant in Service | \$ 14,674,255 |
| Construction Work in Progress | 122,897 |
| Materials & Supplies - Electric | 205,859 |
| Prepayments | 92,478 |
| Cash Working Capital | 177,339 |
| Sub-total | \$ 15,272,828 |
| Less: | |
| Reserve for Depreciation | \$ 2,526,068 |
| Customer Advances for Construction | 13,427 |
| Sub-total | \$ 2,539,495 |
| Net Investment | \$ <u>12,733,333</u> |

Capital Structure

Inter-County proposed a capital base of \$13,932,826.⁴ The Commission has accepted this capital base with the exception of the Applicant's proposal to deduct patronage capital assigned but not paid by associated organizations other than the Applicant's Generation & Transmission Cooperative, East Kentucky Power Cooperative, Inc.

¹Applicant's Exhibit H.

² $1/8 (\$5,317,087 - \$3,898,373) = \$177,339.$

³Applicant's Exhibit A, page 2 of 4.

⁴Applicant's Exhibit J.

This method is in accordance with past policy and increases the proposed capitalization by \$136,687 ⁵ making capital \$14,069,513 set out as follows:

| | |
|--|----------------------|
| Memberships | \$ 236,820 |
| Patronage Capital | 3,692,344 |
| Long Term Debt | 10,884,062 |
| Sub-total | \$ 14,576,406 |
| Less: | |
| Generating & Transmission Patronage Capital | \$ 506,893 |
| Capitalization | \$ <u>14,069,513</u> |

No other methods of valuation were included in the evidence of record. However, the Commission has given due consideration to all elements of value in order to determine the reasonableness of the matter herein. The rates of return found reasonable on the above-mentioned valuation methods will provide Inter-County with sufficient revenues to meet the mortgage requirements of its principle lending agents.

REVENUES & EXPENSES

Inter-County proposed several adjustments to its income statement to more clearly reflect current operating conditions.⁶ The Commission finds that these adjustments are proper and reasonable with the exception of the Applicant's proposal to deduct non-cash capital credit assignments from associated organizations in the amount of \$30,618.⁷ This adjustment is a corollary adjustment to the proposed deletion of patronage capital assignments from associated organizations as discussed above and in accordance with past policy this adjustment is rejected. Moreover, in accordance with the rules and regulations of the Commission, an adjustment has been made to deduct test year expenditures for institutional advertising of \$1,473.⁸

⁵ \$70,770 + \$65,917 = \$136,687.

⁶ Applicant's Exhibit D.

⁷ IBID, page 23 of 54.

⁸ Applicant's Response to Staff Information Requests, filed April 3, 1980.

Therefore, test year operations are adjusted as follows:

| | <u>Actual</u> | <u>Adjustments</u> | <u>Adjusted</u> |
|-------------------------------------|--------------------------------|----------------------|---------------------|
| Operating Revenues | \$6,010,229 | \$ 455,474 | \$6,465,703 |
| Operating Expenses | <u>5,256,856</u> | <u>680,666</u> | <u>5,937,522</u> |
| Operating Margin | \$ 753,373 | \$(225,192) | \$ 528,181 |
| Other Income & Deductions Net | \$ <u>(391,512)</u> | \$ <u>(87,367)</u> | \$ <u>(478,879)</u> |
| Net Income | \$ <u>361,861</u> ⁹ | \$(<u>312,559</u>) | \$ <u>49,302</u> |

CONTRIBUTIONS

Contributions and donations have long been considered an inappropriate expense for utility ratepayers to bear. This Commission and its predecessor, the Public Service Commission, have consistently followed a policy of disallowing contributions as an operating expense of a utility for rate case purposes. In a privately owned utility, the expenses disallowed for ratemaking purposes are absorbed by the stockholders which is reflected in the stockholder's return. This principal, however, cannot hold true for a cooperative corporation as the ratepayer is also the owner of the utility and therefore must ultimately bear all the costs regardless of their nature.

Although contributions do not generally represent a great deal of money either in total or to the individual ratepayer, it is still the Commission's opinion that the decision to contribute or not to contribute to particular charitable institutions should be an individual's own choice. Therefore, it is the Commission's opinion that the individual member-consumers of Inter-County Rural Electric Cooperatives should be given the opportunity to decide on the merits of any contributions made in the name of the cooperative. As it is not feasible to poll each member-consumer on an individual basis, the Commission feels that this matter should be decided on a collective basis at Inter-County's annual meetings, as these meetings represent the largest one gathering of members at any one time. The issue of contributions should be put to vote on the specific bases of total

⁹Applicant's Exhibit B.

annual contributions, the particular organizations to whom contributions shall be made and the amount to be donated to each individual organization selected. Moreover, the Commission feels that consumers should be given notice that this issue will be on the agenda prior to the annual meeting and, therefore Inter-County should advise its members of this in all general advertisements notifying the members of the meeting itself.

RETURN

The Commission is of the opinion that the adjusted rate of return of 4.15%¹⁰ is clearly unfair, unjust and unreasonable.

The Commission is of the opinion that a fair, just and reasonable rate of return is 8.97%, which provides an adjusted times interest earned ratio (TIER) of 2.25X and will allow Inter-County to pay its operating expenses, service its debt, and provide an adequate surplus for equity growth. To achieve these earnings, Applicant is entitled to increase its electric rates to generate additional annual revenues of \$614,736¹¹ based on test period conditions.

RATE DESIGN

Inter-County proposed to change its rate design to reflect a two-step energy usage charge with a customer charge. As the Commission finds that this reflects a move toward the rate making standards contained in the National Energy Act, more specifically, the Public Utility Regulatory Policies Act of 1978 (PURPA), and that it encourages energy conservation the proposed change has been incorporated in Appendix "A".

¹⁰ \$528,181 ÷ \$12,733,333 = 4.15%

¹¹ \$12,733,333 X 8.97% = \$1,142,917 - \$ 528,181 = \$614,736

SUMMARY

The Commission, after considering all of the evidence of record, and being fully advised, is of the opinion and so FINDS:

(1) That a fair, just and reasonable rate of return is 8.97% and that to achieve these earnings Applicant is entitled to increase its electric rates to generate additional annual revenues of \$614,736.

(2) That concurrent with this Order, Inter-County will experience an increase in wholesale power costs of \$344,537 from its supplier, East Kentucky Power Cooperative Corporation as granted in Case No. 7702.

(3) That Inter-County made Application in Case No. 7720 to flow through the effects of such increase from its wholesale supplier.

(4) That such increase is necessary in order to enable Inter-County to earn the rate of return found reasonable above.

(5) That Case No. 7720 is hereby incorporated in this Order and that the rates and charges in Appendix "A" fully reflect the effects of said flow-through.

(6) That the rates and charges set out in Appendix "A" attached hereto and made a part hereof will produce gross annual revenues in the amount of approximately \$7,424,976 and are the fair, just and reasonable rates for the Applicant to charge for electric service in that they will produce revenues sufficient to permit it to pay its operating expenses, service its debt, and provide a reasonable surplus for equity growth.

(7) That the rates proposed by the Applicant in these Case No's 7741 and 7720 are unfair, unjust, and unreasonable in that they produce gross annual revenues in excess of \$7,424,976 and should be denied.

(8) That Inter-County Rural Electric Cooperative Corporation's members should be given a vote on the issues concerning contributions and donations.

IT IS THEREFORE ORDERED, that the rates sought by Inter-County Rural Electric Cooperative Corporation in Case No's 7741 & 7720 be and the same are hereby denied.

IT IS FURTHER ORDERED, that the rates set out in attached Appendix "A" are hereby approved for electric service rendered by Inter-County Rural Electric Cooperative Corporation on and after July 1, 1980.

IT IS FURTHER ORDERED, that the Applicant shall file with this Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

IT IS FURTHER ORDERED, that in the future the Applicant shall bring the issues related to contributions before its members for vote in its annual meetings and shall notify its members of this impending vote prior to the date of the meeting in all general advertisements of the meeting.

Done at Frankfort, Kentucky, this the 1st day of July, 1980.

ENERGY REGULATORY COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY COMMISSION IN CASE NO. 7741 and 7720 DATED JULY 1, 1980.

The following rates are prescribed for the customers in the area served by Inter-County Rural Electric Cooperative Corporation. All other charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

Rates: Monthly

Schedule 1-Farm and Home Service*

Customer Charge: \$5.25 per meter per month

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|----------------------------|---------------|
| First 500 KWH per month | 5.29¢ per KWH |
| All over 500 KWH per month | 3.64¢ per KWH |

The minimum monthly charge under the above rate shall be \$5.25 net where 5 KVA or less of transformer capacity is required. Each customer who requires more than 5 KVA of transformer capacity shall pay, in addition to the above minimum, \$1.50 of each additional KVA or fraction thereof required.

Schedule 2 - Small Commercial and Small Power*

Demand Charge in Excess of 10 KW per month \$2.85 per KW

Customer Charge: \$5.25 per meter per month

| | |
|------------------------------|---------------|
| First 1,000 KWH per month | 6.39¢ per KWH |
| All over 1,000 KWH per month | 3.77¢ per KWH |

The minimum monthly charge under the above rate shall be \$5.25 net where 5 KVA or less of transformer capacity is required. Each customer who requires more than 5 KVA of transformer capacity shall pay, in addition to the above minimum, \$1.50 of each additional KVA or fraction thereof required.

Schedule 4 - Large Power Rate (LPR)*

Demand Charge per KW of billing demand per month \$2.85 per KWH

Customer Charge: \$10.50 per meter per month

| | |
|-------------------------------|---------------|
| First 10,000 KWH per month | 4.39¢ per KWH |
| All over 10,000 KWH per month | 3.69¢ per KWH |

The minimum monthly charge shall be the highest one of the following charges:

- (a) The minimum monthly charge as specified in the contract for service.
- (b) A charge of \$1.50 per KVA per month of contract capacity.

Schedule 5 - All Electric School (AES)*

All Kilowatt hours per month 3.74¢ per KWH

The minimum annual charge will not be less than \$16.00 per KVA of required transformer capacity as determined by the Cooperative.

*The monthly kilowatt hour usage shall be subject to plus or minus an adjustment per KWH determined in accordance with the "Fuel Adjustment Clause."

Schedule 6 - Outdoor Lighting Service - Security Light*

Mercury Vapor Lamp 175 Watt
Mercury Vapor Lamp 200 Watt

\$5.70 per lamp per month
6.95 per lamp per month

*The monthly kilowatt hour usage shall be subject to plus or minus an adjustment per KWH determined in accordance with the "Fuel Adjustment Clause."